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SUBJECT: EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE:
SLOW PROGRESS, URGENT NEED

REF: 08 MAPUTO 1073

¶1. (U) SUMMARY: The GRM declared its intent to adhere to the principles of the Extractive Industries Transparency Initiative (EITI) in 2008, ultimately joining EITI in May of this year. The GRM has made little progress in implementation however and claims lack of funds, putting compliance into jeopardy. Projected revenue from natural resource mega-projects could surpass all international donor assistance within five years, suggesting that Mozambique could benefit greatly from EITI implementation. END SUMMARY.

LITTLE EITI PROGRESS

¶2. (SBU) The Government of Mozambique (GRM) formally joined the Extractive Industries Transparency Initiative (EITI) in May 2009 as a candidate country and has two years to reach compliance status. Dr. Abdul Razak Noormahomed, Deputy Minister of Mineral Resources and the leader of the GRM's EITI effort, told Econoffs in mid-September that twenty-nine other countries are also in the candidate stage of the initiative. He indicated that after signing onto the initiative, the GRM created a workplan. For the second half of 2009, the GRM was supposed to do many things: call its first formal EITI-committee meeting, identify companies to participate in the process, recruit an auditor, and establish an official website. To date the GRM has not completed any of the steps in the workplan, however.

¶3. (SBU) In a September 22 meeting with International Monetary Fund (IMF) representatives, the GRM reiterated its commitment to EITI, and said it would create a local secretariat by March 2010, but said it does not have the funds nor capacity to implement EITI alone. The IMF has now asked the donor community to assist in implementation. According to an economic advisor with the UK's Department for International Development (DFID), the March 2010 deadline for the creation of the governing body is very optimistic given that the GRM has yet to make a request for funds to set up the secretariat and begin general implementation. An economist from the Norwegian Embassy traveled in late September to meet with EITI secretariat officials in Oslo to discuss how the donor community can assist Mozambique with implementation.

MASSIVE NATURAL RESOURCE REVENUES PROJECTED

¶4. (SBU) The projected revenue of new natural resources found in Mozambique could surpass all international donor

assistance within a few years. The DFID economic advisor told Econoff on September 17 that conservative economic modeling suggests that natural resource mega-projects could add an additional \$40-\$50 million per year to state revenue--without the discovery of oil. If oil is discovered in Mozambique--and currently there are five concession areas being explored (reftel)--then state revenue could increase by up to \$600 million per year, possibly reaching \$850 million per year within five years.

COMMENT: NEED TO PRESS FORWARD ON COMPLIANCE

15. (SBU) Implementation of EITI before the potential discovery of oil could help create a concrete framework of revenue reporting and stave off corruption. Slow progress towards implementation is of concern, however, as it could jeopardize the GRM's continued participation in EITI--at the most recent EITI board meeting in Washington, it was emphasized that some countries which still have not started their validation process could be removed from the initiative. Continued support from international donors may be the only way to ensure the GRM continues to move towards implementation.

ROTH